

Magni Clients Information – Post Embargo

Talking Points on International Equity Research and Investing

May 2014

Market Performance

- The top three performing countries in April were the United Kingdom, Peru, and Hong Kong.
- The bottom three performing countries in April were Colombia, India, and Turkey.

It should be noted that these monthly results in both the top performing and bottom performing countries are within normal ranges.

Emerging Markets

- The ongoing crisis in Ukraine continues to weigh on overall emerging market sentiment. However, the recent restoration of order in Mariupol by one of their “oligarchs” may offer a glimmer of hope for a way out of the impasse. The May 25th elections appear to have broad based legitimacy and, despite the current upheaval, may help to resolve the situation.
- In the first elections since the death of Nelson Mandela, the ruling African National Congress (ANC) received 62% of all votes cast, down 4 pts. from the previous election and their smallest result since 1994. The challenging economic environment in the country was evidenced through the ANC support being inversely related to the average income in every province. If the government enacts important reforms that make the business climate friendlier to foreign investment and local start-ups, then the economic situation should improve. Such changes could increase their country score based on Magni’s Qualitative Sovereign Analysis.
- An increasingly assertive China, particularly in contested waters, will have repercussions throughout the Asia Pacific regions. The placement of a Chinese oil rig in waters claimed by both Beijing and Hanoi is one example. While the longer-term diplomatic solution will probably require United States support and bolstered defenses for regional allies, the investment implications are not clear. These activities do not directly impact country scores and hence changes in target weightings, though any dislocated markets arising from such international incidents tend to create medium to long term opportunities.
- As expected Narendra Modi’s Hindu-nationalist party won an overwhelming victory in India’s recently completed elections and for the first time in more than 30 years one party has an outright legislative majority. This strong mandate for broad reforms is important given elevated market expectations. Magni’s Qualitative Sovereign Analysis will be tracking the actual success in passing and implementing these reforms.

Accounting

- Given new information, Magni is reviewing accounting systems used in countries around the world. Accounting systems are an integral part of wealth creation as investors want to know that financial statements accurately reflect the operating performance of businesses. The early results from the review appear to be good news in that countries continue to strengthen their accounting systems. In future months, Magni will be communicating key insights from a completed review.